GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0170	**Title:**	Revise income tax rates and the capital gains credit
Primary Sponsor:	Wittich, Art	**Status:**	As Introduced-Revised

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	($33,169,000)	($96,544,000)	($86,068,000)	($92,357,000)
Net Impact-General Fund Balance:	($33,169,000)	($96,544,000)	($86,068,000)	($92,357,000)

Description of fiscal impact: This bill would lower the top income tax rate to 5.9%, reduce the capital gains credit rate to 1%, and increase corporation license tax rates by 1%. The net effect would be an annual revenue reduction of about $90 million. The changes would take effect in the middle of FY 2014 and part of the FY 2014 impact would be shifted to FY 2015 because of payment patterns.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill would replace the existing 6.0% and 6.9% income tax rate brackets with a new 5.9% rate bracket starting at the same taxable income as the current 6% bracket. It would reduce the capital gains credit to 1% of capital gains income.
2. This bill would increase the corporation license tax rate to 7.75% for corporations that do not make the water's-edge election and 8% for those that do.
3. The SJ 2 income tax forecasting model was modified to reflect the changes in this bill. The following table shows the changes in calendar year tax liability.

Change in Calendar Year Income Tax Liability	
year	**$ million**
2014	($99.506)
2015	($105.713)
2016	($111.995)
2017	($117.189)

4. In order to calculate the corporation license tax impacts, the SJ 2 forecast of revenue for FY 2013, FY 2014, and FY 2015 were used and these numbers were extended for FY 2016 and FY 2017 by using the OBPP growth rates for FY 2016 and FY 2017.
5. For TY 2010, firms filing under the water's-edge election reported 22% of corporate license tax liability. Forecast taxable income for water's-edge corporations was calculated by dividing 22% of the corporation license tax estimates by the current tax rate of 7%. Forecast taxable income for non-water's edge corporations was calculated by dividing 78% of the forecast corporation license tax estimate by the current tax rate of 6.75%. Then the implied total taxable incomes by type were multiplied by the new tax rates to give a forecast of tax revenue with this bill. The following table shows the changes in forecast revenue.

Change in Corporation License Tax Forecast	
FY	**$ million**
2014	$22.650
2015	$22.786
2016	$22.235
2017	$21.252

6. For individuals, this bill would take effect at the beginning of CY 2014, which is half-way through FY 2014. The department would develop new income tax withholding tables and provide them to employers in the fall of CY 2013. However, based on experience with previous rate changes, some employers will take several months to switch to the new withholding tables. These employers will over-withhold for the second half of FY 2014, and their employees will receive larger refunds when they file their TY 2014 returns in FY 2015. Because of this, it is assumed that two-thirds of the revenue change expected for the last half of FY 2014 will occur in FY 2014 and one-third will occur in FY 2015.
7. For a corporation, this bill would take effect for the first tax year that begins in 2014. A corporation is required to make estimated payments that are the lower of its tax liability for the previous year or 80% of its tax liability for the current year. Corporations are likely not to begin making increased payments to reflect the higher tax rates until FY 2015. Therefore, changes in collections are expected to lag one year behind the forecast changes shown in assumption 5.
8. The following table shows changes in fiscal year revenue for income tax (vs calendar year impact shown in assumption 3), corporation license tax, and total general fund revenue.

Change in Fiscal Year Revenue ($ million)			
FY	**Income tax**	**Corp. tax**	**Total**
2014	($33.169)	$ 0.000	($33.169)
2015	($119.194)	$22.650	($96.544)
2016	($108.854)	$22.786	($86.068)
2017	($114.592)	$22.235	($92.357)

9. Changes to tax forms and instructions would be made as part of the normal annual update process with no additional costs. Changes to the department's data capture and processing systems would cost less than $10,000 and could be absorbed by the department's existing budget.

Fiscal Impact: **Department of Revenue**	**FY 2014 Difference**	**FY 2015 Difference**	**FY 2016 Difference**	**FY 2017 Difference**
Expenditures:				
TOTAL Expenditures	$0	$0	$0	$0
Funding of Expenditures:				
TOTAL Funding of Exp.	$0	$0	$0	$0
Revenues:				
General Fund (Income Tax)	($33,169,000)	($119,194,000)	($108,854,000)	($114,592,000)
General Fund (Corp Tax)	$0	$22,650,000	$22,786,000	$22,235,000
TOTAL Revenues	($33,169,000)	($96,544,000)	($86,068,000)	($92,357,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($33,169,000)	($96,544,000)	($86,068,000)	($92,357,000)

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*